

HealthLeaders
ANALYSIS

WASTEFUL SPENDING IN U.S. HEALTHCARE ESTIMATED AT \$760 BILLION TO \$935 BILLION

BY CHRISTOPHER CHENEY | OCTOBER 07, 2019

Researchers focus on six categories of waste: failure of care delivery, failure of care coordination, overtreatment or low-value care, pricing failure, fraud and abuse, and administrative complexity.

KEY TAKEAWAYS

- This new research updates earlier estimates of wasteful spending that focus on six categories identified by the Institute of Medicine.
- In the new research, the biggest category of wasteful spending is administrative complexity, with annual waste estimated at \$265.6 billion.
- Interventions to reduce waste in the six Institute of Medicine categories would result in annual savings from \$191 billion to \$282 billion.

Waste accounts for about 25% of U.S. healthcare spending, new research indicates.

No other country spends more on healthcare than the United States, with the gross domestic product share of healthcare spending estimated at nearly 18% and rising. Earlier research on U.S. healthcare spending has estimated that waste accounts for about 30% of the spending total.

Reducing wasteful spending is a promising avenue to curb annual increases in the country's healthcare spending, according to the co-authors of the new research, which was published today in the *Journal of the American Medical Association*. "Implementation of effective measures to eliminate waste represents an opportunity reduce the continued increases in U.S. healthcare expenditures," the researchers wrote.

The researchers examined data from 54 published reports. They tallied waste in six categories identified in 2010 by the Institute of medicine (IOM): failure of care delivery, failure of care coordination, overtreatment or low-value care, pricing failure, fraud and abuse, and administrative complexity. Pricing failure includes medication pricing, payer-based health services pricing, and laboratory-based and ambulatory pricing.

In 2019, total U.S. healthcare spending is projected at \$3.82 trillion.

The *JAMA* researchers generated several key data points:

- Annual wasteful spending on healthcare is estimated from \$760 billion to \$935 billion.
- Interventions to reduce waste in the six IOM categories would result in annual savings from \$191 billion to \$282 billion.
- The annual cost of wasteful spending from administrative complexity accounts for the highest category of waste, estimated at \$265.6 billion.
- The annual cost of waste from pricing failure is estimated from \$230.7 billion to \$240.5 billion.
- The annual cost of waste from failure of care delivery is estimated from \$102.4 billion to \$165.7 billion.
- The annual cost of waste from overtreatment or low-value care is estimated from \$75.7 billion to \$101.2 billion.
- The annual cost of waste from fraud and abuse is estimated from \$58.5 billion to \$83.9 billion.
- The annual cost of waste from failure of care coordination is estimated from \$27.2 billion to \$78.2 billion.

The impact of likely interventions to reduce wasteful spending are significant but limited, the researchers wrote.

"The best available evidence about the cost savings of interventions targeting waste, when scaled nationally, account for only approximately 25% of total wasteful spending. These findings highlight the challenges inherent in rapidly changing the course of a health system that accounts for more than \$3.8 trillion in annual spending, 17.8% of the nation's GDP."

ASSESSING THE DATA

The highest amount of wasteful spending was associated with the administrative complexity category. The development and adoption of value-based payment models has the most potential to impact this category of wasteful spending, the researchers wrote.

"In value-based models, in particular those in which clinicians take on financial risk for the total cost of care of the populations they serve, many of the administrative tools used by payers to reduce waste (such as prior authorization) can be discontinued or delegated to the clinicians, reducing complexity for clinicians and aligning incentives for them to reduce waste and improve value in their clinical decision-making."

Reducing spending the second-highest wasteful category—pricing failure—poses daunting challenges because of the rising prices of pharmaceuticals, the researchers wrote. "New high-cost specialty drugs, which will soon exceed 50% of pharmaceutical spending, are raising new questions about how to maintain affordability. This topic has thus received considerable attention from policy makers, and numerous proposals are currently under consideration."

The researchers say strategies to ease cost pressure in pharmaceuticals include increasing market competition, importing drugs from countries with lower medication prices, and reforming price transparency.

THE BIG PICTURE VIEW

An editorial accompanying the new research says the findings are a significant contribution to the ongoing effort to rein in the country's healthcare spending.

"At a time when the United States is once again mired in a great debate about the future of its healthcare system, the data reported in the article ... should become part of the national discussion. It would be nearly impossible for all waste to be eliminated in any

healthcare system, just as it is impossible to know the true cost of any change in the delivery and financing of healthcare without understanding possible savings, and recognizing that there is complexity in knowing the savings," the editorial says.

Concentrating on wasteful spending is crucial, the editorial says. "While no single solution will solve the continuous increases in U.S. healthcare spending, identifying, reducing, and eliminating waste are important and appropriate places to start."

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